Weekly Economic Review

Rig count stuck at record low levels

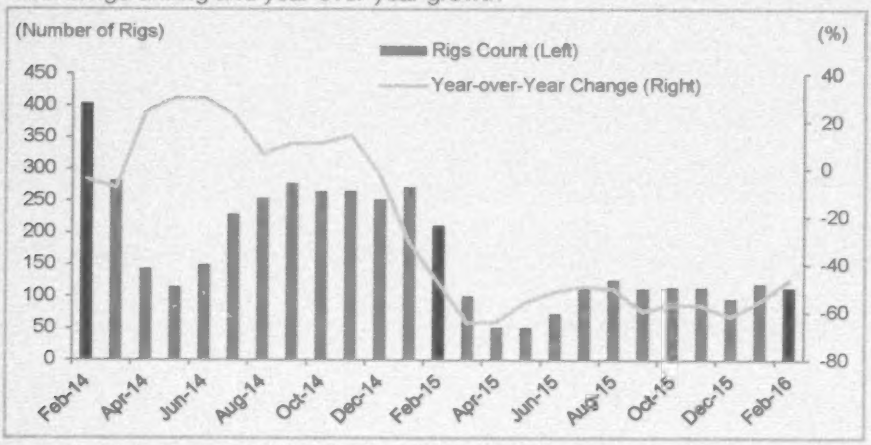
Rigs Drilling

Ongoing price shock keeps rigs activity at record low

The persistence of low oil prices has kept drilling activity for oil and gas at record low levels. Despite usually being the busiest season for drilling, there were only 113 rigs active in Alberta in February, down 47% y/y (Chart 1). Only 23% of available rigs were in use compared with an average usage rate of 74% through February over the past fifteen years. Drilling remained weak across Canada, with the number of active oil rigs down 40% y/y and natural gas rigs down 44% y/y.

Chart 1: Drilling weakness overpowers usual seasonal uptick

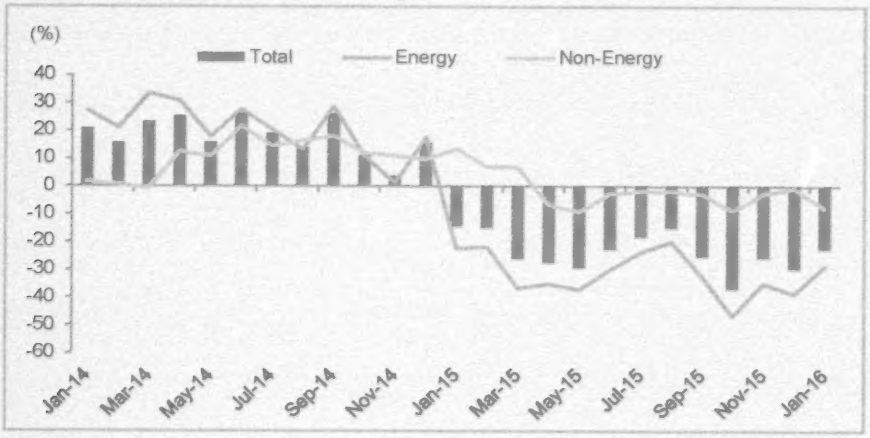
Alberta rigs drilling and year-over-year growth



Source: Canadian Association of Oilwell Drilling Contractors

Chart 2: Lacklustre start for merchandise trade in 2016

Year-over-year change in Alberta international merchandise trade



Source: Statistics Canada

Metres Drilled

Drilling down on all counts in 2015

Metres drilled for oil and gas in Alberta were down 50% y/y in December. Conventional drilling – which accounts for two-thirds of total meters drilled – remained the hardest hit, down 70% y/y while metres drilled for bitumen fared slightly better, only down 36% y/y. Natural gas metres also declined but remained within range of the past five years of activity. Oil and gas producers had a tough year in 2015, with metres drilled for conventional oil (-66%), bitumen (-48%) and gas (-27%) well below annual drilling in 2014.

Merchandise Trade

Exports slip further at start of 2016

Alberta's international goods exports totaled $7.1 billion in January, down 23% y/y (Chart 2). The value of energy exports, which accounted for two-thirds of total exports, declined by 29% y/y, or nearly $1.9 billion, due to low oil prices. However, the actual volume of crude exports was up 7.2% y/y. Non-energy exports were down 7.9% y/y with weakness persisting in industrial machinery (-38%) as well as metal and non-metallic mineral products (-13%).

Farm Products Prices

Loonie helps boost prices in 2015

The average price Alberta farmers received for their products in 2015 increased by 12% compared with 2014. Crop prices were up 7.8%, due in part to the weak Loonie, while livestock prices were up 14% - the second year of double-digit increases - owing to

strong global demand and lower cattle inventories. Hog prices were down 23%, mainly because of elevated prices in 2014 when disease decimated North American hog inventories. Commodities that are subject to supply-management policies like poultry, eggs, and dairy were each down by 2.0% to 4.0% in 2015.

Canadian Real GDP

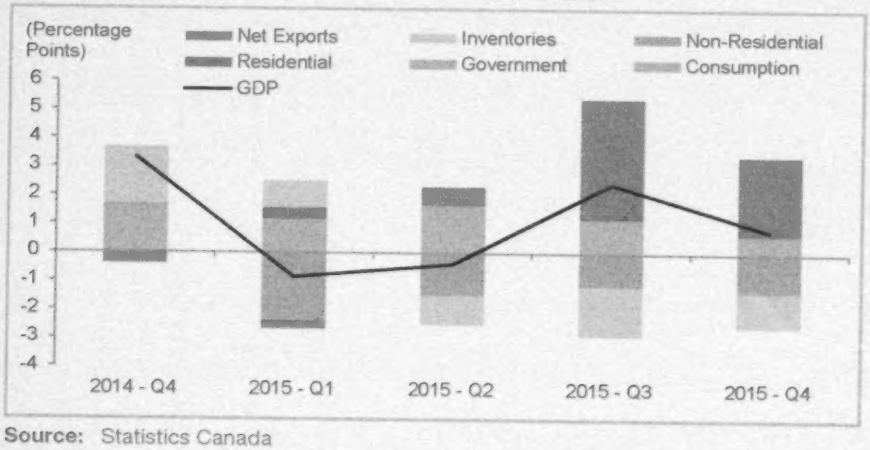
Growth slows at close of 2015

Canadian real GDP growth slowed to 0.8% (annualized) in the final quarter of 2015 (Chart 3). A fourth straight drop in non-residential investment (-12%) proved a lingering source of weakness, as shrinking investment in structures (-15%) and machinery and equipment (-9.0%) continued to weigh on growth. Energy sector investment continued waning with capital expenditures on engineering structures down 16% and spending on mineral exploration at its lowest level since late 1993. Residential investment fared better, up 1.8% Household consumption also increased by a modest 1.0%, driven by spending on services (1.5%), durable goods (1.7%) and semi-durables (2.6%). However, the biggest contributor to growth was the 8.9% drop in imports which more than offset the 2.2% fall in exports, and boosted net exports. The import weakness was mostly attributable to the weak Loonie and lower investment in business inputs.

Canada's economy experienced a marked slowdown in 2015, growing by just 1.2% after a mild contraction in the first half of the year.

Chart 3: Net exports support growth

Contributions to Canadian real GDP at annualized rate



Source: Statistics Canada

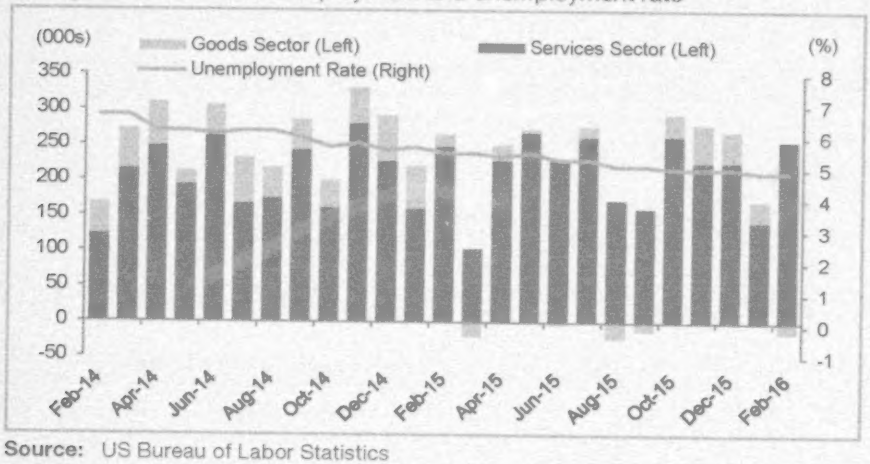
US Employment

US job creation accelerates

On the heels of a strong year for the American labour market, US employment gathered strength in February, adding 242,000 jobs. The job figures for January and December were also collectively revised up by 30,000 jobs (Chart 4). Services industries were the main job creators – accounting for all new employment - led by education and health services and retail trade. Goods producing industries subtracted 15,000 jobs, with in losses in mining and manufacturing sectors only being partially offset by a rise in construction employment. The mining industry extended its job loss streak to seventeen months, losing 19,200 more jobs as producers continued curtailing operations. The unemployment rate remained at 4.9%.

Chart 4: US labour market gathers more momentum in early 2016

Changes in US non-farm employment and unemployment rate



Source: US Bureau of Labor Statistics

Contact

Nachum Gabler 780.638.3238

Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.